Kentucky Fried Chicken Corporation /Annual Report/1969

About the Cover

In a continual parade of progress which began with a secret chicken cooking recipe developed by Colonel Harland Sanders, Kentucky Fried Chicken Corporation has expanded its operations into the international market and has entered new fast food and service fields with Kentucky Roast Beef, H. Salt, esq. English Fish & Chips and Colonel Sanders Inns. Company sales and profits have marched along briskly in this ever-expanding parade.

Financial Highlights

	1969	1968 Restated for poolings of interests	1968 Previously reported
Gross Income	$163,826,880	$112,354,636	$86,230,504
Income before Income Taxes	26,121,245	16,171,286	14,988,124
Taxes on Income	14,038,000	8,449,000	7,853,828
Net Income	12,083,245	7,722,286	7,134,296
Net Income per Share	1.25	.81	.78

To Our Shareholders

In fiscal 1969, Kentucky Fried Chicken Corporation continued the rapid rate of growth which it has maintained since its beginning in 1964, and remained the nation's largest and most rapidly-expanding company in the fast food service field. Our net income, gross income and earnings per share were at record high levels. At the same time we opened more new stores than ever before, increased volume and significantly enlarged the number of our company-owned units. Of greater importance, we further solidified our corporate base—in terms of management depth and financial strength—to enable us to carry out our plans for continued expansion in one of the greatest growth areas of American business.

In fiscal 1969, ending September 30, our sales and operating income totaled $163,826,880, an increase of $51,472,244, or 45.8 per cent over restated 1968. Per share earnings were $1.25, up 54.3 per cent from the $.81 cents restated for 1968. These gains were achieved despite the increase in federal income tax surcharges, which came to $1,250,000 for fiscal 1969, or $.12 cents per share.

This year was an extremely profitable one in terms of our major business—fast food sales. We continued to expand our franchise opportunity, and for the first time expanded beyond the food service field. We further developed a strong retail operating organization to manage our ever-expanding program of company-owned units—an organization with the versatility to manage new, related business and acquisition opportunities.

Last year our stated domestic goal was to open a minimum of 400 new franchised and company-owned stores annually. This goal was substantially

John Y. Brown, Jr., *President*

Jack C. Massey, *Board Chairman*

exceeded in fiscal 1969, with the opening of 534 Kentucky Fried Chicken stores and 67 Kentucky Roast Beef stores for a total of 601 units. In contrast, no other major fast food organization opened more than 200 outlets. At the close of fiscal 1969, more than 2,700 outlets were marketing the products of Kentucky Fried Chicken Corporation in every state and 17 foreign markets.

During 1969, we continued to increase the number of our company-owned stores, both through acquisition of franchised outlets and construction of new stores. At fiscal year-end, Kentucky Fried Chicken Corporation owned and operated 504 units, compared with 285 at the close of the previous year, and only 10 in 1966. Our goal in this expansion program is to own and operate no fewer than 1,000 Kentucky Fried Chicken units within the next three years.

Your Company grew in other ways as well in 1969. In March, we acquired all of the outstanding stock of Salt's Enterprises, Inc., the nation's largest fish and chips chain with 91 H. Salt, esq., English Fish & Chips shoppes in operation in seven states. We plan to build the Salt chain as we have built Kentucky Fried Chicken, through franchised as well as company-owned shoppes. For fiscal 1970, we plan to open a minimum of 100 company-owned and 100 franchised outlets. Your company's management is confident that the Salt Fish & Chips operation has the potential to be one of the outstanding programs in the fast food field.

This new program offers many of the characteristics that contributed to the success of Kentucky Fried Chicken — take-home convenience, high profit potential, a unique high quality product and an authentic sales image in 41-year-old founder Haddon Salt. At this date substantially all major market areas have been committed for franchising (largely to Kentucky Fried Chicken franchisees) or for company-owned development. The management of your Company is dedicated to establishing the same leadership role in this field that it maintains with Kentucky Fried Chicken.

On still another front, your Company plans to move into the hotel-motel industry with a concept for both franchised and company-owned units featuring the Colonel Sanders image. Our market studies conclude that the Colonel's image is recognized as symbol of quality, readily adaptable to this service field. As the most prominent food service host and franchise company in

the nation, we regard the entry into the lodging and restaurant service field a natural extension of our capabilities. In keeping with Southern tradition, we intend to develop a chain of Colonel Sanders Inns featuring Southern hospitality, outstanding food service and top quality accommodations. Construction of the first Colonel Sanders Inn in Louisville began in October. While today's money market will influence our new construction progress, we presently intend to develop this program through franchising and acquisition of high quality motels.

We are continuing the development of our Colonel Sanders Kentucky Roast Beef program, which had 73 units operating at fiscal year-end, with plans for 100 units by December 31, 1969. We have made substantial progress with Kentucky Roast Beef to date through continuing concept and product research. Present annualized sales volume is averaging $200,000 per unit. Through broadening the menu, we hope to increase volume to the point where the profit structure and return on investment are as favorable as in our chicken and Fish & Chips programs.

Our KFC Combo store program, which has brought Kentucky Fried Chicken and Kentucky Roast Beef in unison to smaller communities, experienced significant growth during fiscal 1969, with 104 units in operation September 30, compared with 17 at the close of fiscal 1968. While the communities in which these stores are located have populations under 20,000, the units enjoy a $150,000 volume average with profit margins comparable to metropolitan outlets. The success of outlets in these relatively small communities has led us to restructure our policies regarding minimum population requirements, a move that opens many new markets. By contrast, we also are moving into the nation's largest population center, New York City, with gratifying results. The high sales volumes of new units there indicate that the New York area should become our leading domestic market.

Our Interstate food service program, geared to travelers on the

nation's highways, is proving a successful concept, and we will be expanding opportunities in this area more aggressively in the future.

Internationally, Kentucky Fried Chicken is beginning to realize the expansion which was little more than a promise when the program was launched in 1967. Plans for fiscal 1970 call for the opening of a minimum of 40 company-owned and 75 franchised outlets, bringing our foreign total to 175.

The widely-varied complexities of operating in foreign markets restricts our capacity to expand as rapidly abroad as within the United States. However, our foreign experience is showing such promise that your Company is investing heavily in planning and in management talent capable of taking full and timely advantage of our overseas potential. It is our goal for the next decade to become the leader in the international fast food service field, and to establish a program comparable to our domestic development.

Kentucky Fried Chicken unit, Nassau

Our most vigorous attention in recent years has been directed toward the establishment of a strong and viable corporate base for continuing future growth. We are confident that Kentucky Fried Chicken Corporation's management team has the diversity of experience to enable the Company to expand successfully in both franchising and operations. Many of our key executives are former franchisees who built highly successful Kentucky Fried Chicken operations, giving us management skills which we feel are unmatched in the industry. We plan to take full advantage of this management versatility and to utilize our strong franchise network and the proven sales image of Colonel Sanders to develop new franchise program concepts. We will continue to invest heavily in attracting top management talent to direct the future expansion of your Company.

A significant investment has been made in market research as well as in research directed toward the development of new food products and new, more efficient equipment designed to increase our profitability. A major result

of this investment is our new automated chicken cooker which assures exacting quality control while reducing labor costs.

To further insure the continued high product standard of Kentucky Fried Chicken, we have acquired a major producer of quality poultry. We also have acquired a manufacturer of packaging goods used by our outlets.

In spite of the rapid growth of the fast food industry in recent years, your management believes that outstanding growth potential remains. Though we are the fast food service leader, and have a dramatic growth record, we remain a relatively small company operating in an enormous industry. All food sales in the United States total more than $100 billion annually. The nation's franchising industry, including all types of franchise operations, accounts in total for sales of more than $90 billion. In the food service business alone, total sales are approximately $35 billion. Our gross income of $163,826,880 in 1969 illustrates that we have a comparatively small base from which to continue to grow within the food industry and other segments of the franchise industry.

Despite the substantial sales already achieved, the fast food service industry as we know it today remains in its infancy. The industry's major growth has come primarily within the last four years. Consumer acceptance of the fast food concept indicates that American housewives and a mobile American public will continue to buy prepared foods with greater frequency. As an indication of the opportunity in this field, it has been noted that the ratio of drive-in restaurants to population has actually declined in the last four years, with modern, specialized franchised fast food chains replacing neighborhood restaurants and food stands.

Our combined franchised and company-owned sales, which exceed $500 million annually, place us at the top of the list of all commercial food service operations. We are clearly the leader in terms of share-of-market in the fried chicken segment of the industry. We intend to expand our position in the

coming year, with the objective of opening a minimum of 200 company-owned and 550 franchised outlets of all types, domestically and internationally. The continued availability of capital could modify this development schedule, but at the present time our franchisees are showing the capability to handle their own finance requirements, and your Company is in the process of establishing long-term financing for its accelerated company-owned expansion program.

We are confident of the great opportunities ahead, and at the same time are cognizant that we must make the continued investment now to further expand our management capabilities and embark on the planning, development and new programs required to take full advantage of our overall opportunities.

Consistent with a sound and orderly growth plan, all indications point to another outstanding year for fiscal 1970. Three years ago as a $15 million company, we established as our corporate objective the achievement of $100 million in annual sales by 1972. We are now three years ahead of that time table, and today our new corporate goal is the realization of $1 billion in sales during the next decade. We wish to thank our entire management team for the Company's accomplishments to date, and for its dedication to the establishment of Kentucky Fried Chicken Corporation as one of America's great companies.

We want to take this opportunity to express our gratitude to our shareholders, our employees, our franchisees and our customers for their continuing support. It is this support which will enable us to continue to achieve and surpass our goals.

Sincerely,

John Y Brown Jr

John Y. Brown, Jr.
President
Chief Executive Officer

Jack C Massey

Jack C. Massey
Chairman of the Board

New Directions

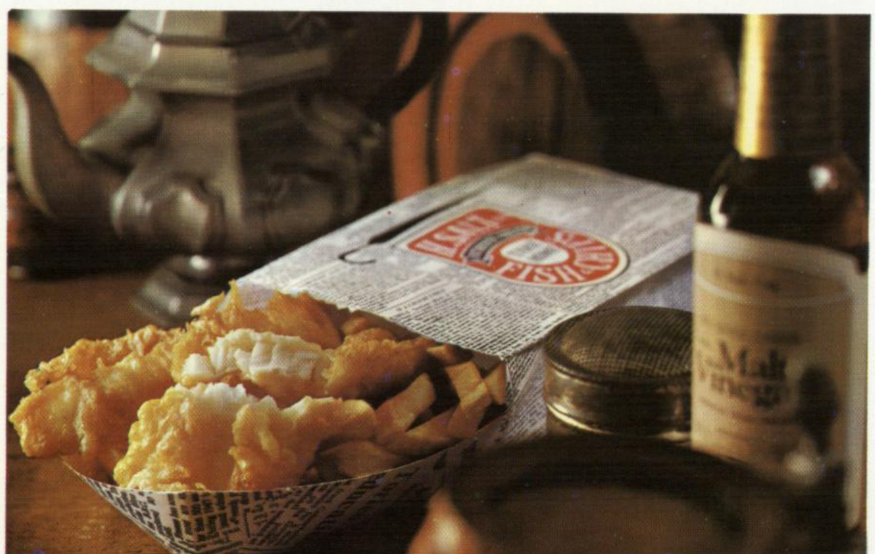
Richard B. Thomas
President, H. Salt, esq.
English Fish & Chips
Corporate Vice President

Kentucky Fried Chicken Corporation moved forward in many exciting new directions during 1969.

The most promising new development within our fast food service operations was the acquisition of Salt Enterprises, Inc., franchisor of H. Salt, esq., English Fish & Chips shoppes. A vigorous expansion program is underway, both in franchising and through company market development with a combined goal of 1,000 Fish & Chips shoppes in operation by 1973.

H. Salt, esq., English Fish & Chips already is the largest operation of its kind, with a potential to become one of the nation's outstanding food service operations.

As America becomes more mobile with more leisure time, the need for high-quality hotel-motel services across the country will be in




H. SALT ESQ.
AUTHENTIC ENGLISH
TAKE HOME
FISH & CHIPS

Joe Chalfont
President, Mid-Continent Carton Corporation

ever-increasing demand. In keeping with the Colonel Sanders tradition, we intend to develop a chain of Colonel Sanders Inns which will be noted for Southern hospitality, outstanding food, pleasant surroundings and comfortable rooms.

The former president and the former financial vice president of one of the nation's major motel chains have joined our organization to direct the operations of Colonel Sanders Inns, Inc. Their management staff includes other experienced motel industry executives.

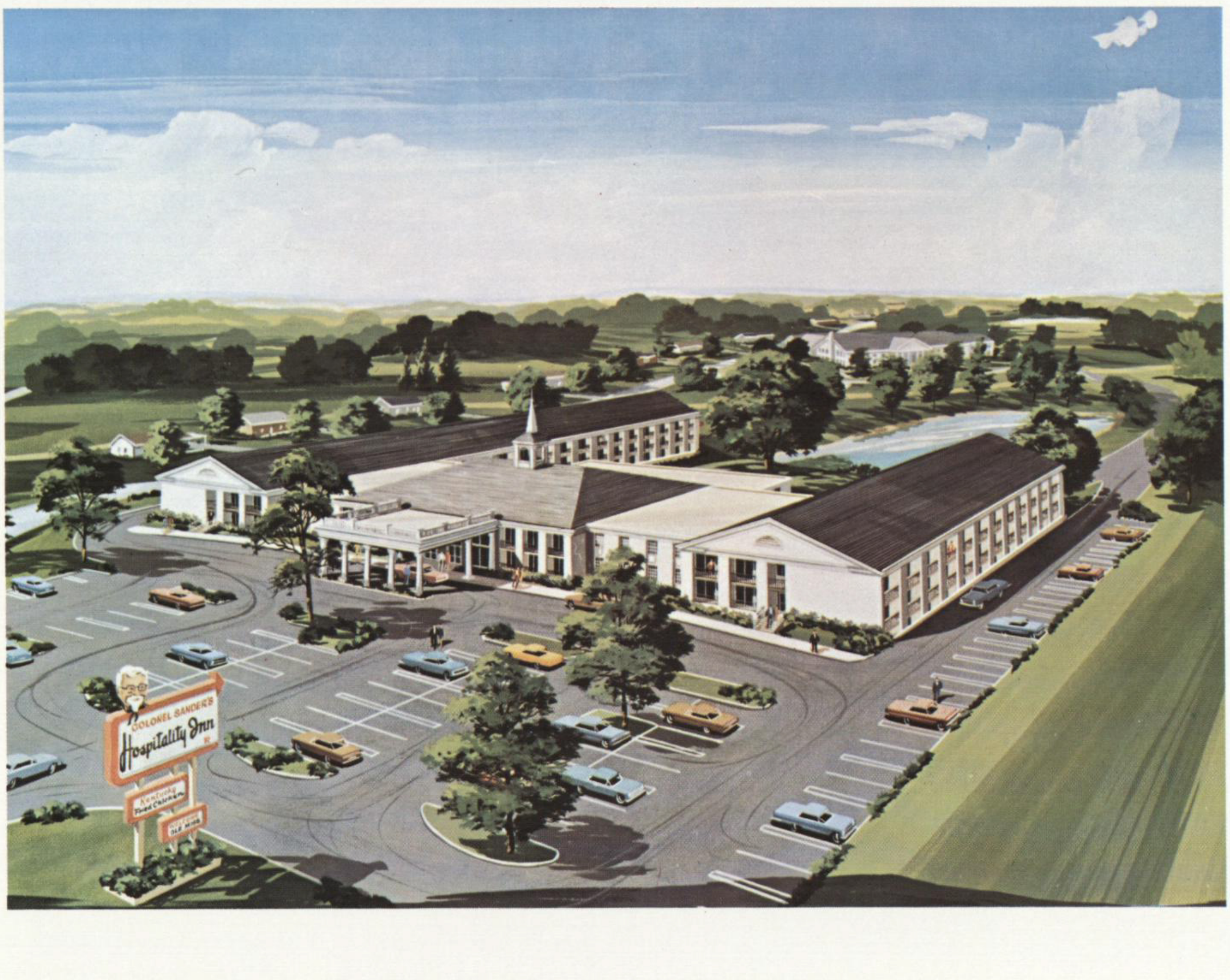
Ground was broken in October, 1969, for a company-owned Colonel Sanders Inn on the site of the eight-acre KFC International Headquarters complex. The colonial-style inn will have 200 guest rooms, an elegant dining room and spacious meeting and recreational facilities. The program, a natural extension of Kentucky Fried Chicken's service and food-oriented capabilities, will be developed primarily through franchising and acquisitions.

Kentucky Fried Chicken has capitalized on new opportunities closely related to our primary business with the acquisition of the Walley-Clegg Co., Inc., of Oxford, Alabama, a major poultry producer and processor, and Mid-Continent Carton Corporation of Louisville, which supplies a portion of our packaging materials.

The Company's acquisition team constantly is exploring potential new profit centers, and evaluating a large number of prospective acquisitions which offer a broader operating base. However, it is the policy of Kentucky Fried Chicken Corporation to be highly selective, considering only areas applicable to the Company's basic expertise and those which offer greatest returns on invested capital and management talent.

Construction on the first Col. Sanders Inn began in October in Louisville. Norman Monson (L), president, and T. F. Hetherington, chairman/chief executive officer, direct the growth of Col. Sanders Inns, Inc.

The first Colonel Sanders Inn, a 200-room facility near the Company's new Louisville international headquarters, began in October, 1969. The Inn, depicted here in an artist's concept, is the first of a planned nationwide system of franchised and company-owned motels.



Expansion

While moving in new directions, KFC expanded its fast food operations rapidly in 1969 — both at home and abroad.

On September 30, 1969, the products of Kentucky Fried Chicken Corporation were offered in more than 2,700 stores in the United States and abroad, including the 601 which opened their doors for the first time during fiscal 1969. The Company is pursuing an accelerated 1970 expansion schedule which will bring to more than 3,450 the number of stores offering its products.

The acquisition of H. Salt, esq., English Fish & Chips last March immediately

Australia is the largest international market for Kentucky Fried Chicken. This store is one of 28 operating in Australia at the close of fiscal 1969. In just over one year sales volume in Australian stores parallels those in the United States.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COL. SANDERS' RECIPE...
Kentucky Fried Chicken.
"it's finger lickin' good"

John Y. Brown, Jr. and Col. Harland Sanders visited Louisville's second company-owned Kentucky Roast Beef store on grand opening day.

Kentucky Fried Chicken Corporation /Annual Report/1969

CONSOLIDATED FINANCIAL STATEMENTS

About the Cover

On January 16, 1969, Kentucky Fried Chicken Corporation was listed among the nation's leading businesses on the New York Stock Exchange. Colonel Harland Sanders purchased the first 100 shares of stock after the listing.

Statement of Consolidated Operations

Kentucky Fried Chicken Corporation (Delaware)
and Consolidated Subsidiaries

	Year ended Sept. 30, 1969	Year ended September 30, 1968 Restated Note A	Year ended September 30, 1968 As Previously Reported
Net sales	**$153,496,291**	**$106,231,879**	$80,196,536
Cost of goods sold	**79,283,998**	**58,581,516**	45,143,466
	74,212,293	**47,650,363**	35,053,070
Monthly franchise fees	**7,661,923**	**5,039,159**	5,227,767
Initial franchise fees	**1,970,195**	**791,190**	501,440
Other operating income	**698,471**	**292,408**	304,761
	84,542,882	**53,773,120**	41,087,038
Selling, administrative, and general expenses	**56,895,131**	**37,417,906**	26,043,526
	27,647,751	**16,355,214**	15,043,512
Other income	**530,969**	**824,320**	323,818
	28,178,720	**17,179,534**	15,367,330
Other deductions	**1,261,184**	**521,304**	379,206
	26,917,536	**16,658,230**	14,988,124
Minority interest in consolidated subsidiary — Note A	**796,291**	**486,944**	—
INCOME BEFORE INCOME TAXES	**26,121,245**	**16,171,286**	14,988,124
Income taxes — Note H:			
Federal (including surtax of $1,250,000 in 1969, $550,000 in 1968 restated and $520,000 in 1968 as reported or $0.12, $0.05 and $0.06 a share respectively)	**13,300,000**	**7,779,000**	7,202,417
State	**738,000**	**670,000**	651,411
	14,038,000	**8,449,000**	7,853,828
NET INCOME	**$ 12,083,245**	**$ 7,722,286**	$ 7,134,296
Net income per Common Share — Note G	**$ 1.25**	**$ .81**	$ .78

See notes to consolidated financial statements.

Consolidated Balance Sheet

Kentucky Fried Chicken Corporation (Delaware) and Consolidated Subsidiaries	**Sept. 30, 1969**	**September 30, 1968** Restated Note A	**September 30, 1968** As Previously Reported
ASSETS			
Current Assets			
Cash	**$10,416,754**	**$ 9,391,295**	$ 8,102,014
Marketable securities — at cost (approximate market)	**1,590,577**	**1,204,259**	1,204,259
Notes (1969—$1,588,891 and 1968 restated—$1,080,639) and accounts receivable, less allowance for doubtful accounts (1969—$371,224 and 1968 restated—$410,366)	**16,282,614**	**8,328,801**	7,328,737
Merchandise inventory — at lower of cost (first-in, first-out method) or market	**6,053,217**	**3,948,368**	1,853,345
Prepayments and other current assets	**1,319,937**	**834,715**	583,419
TOTAL CURRENT ASSETS	**35,663,099**	**23,707,438**	19,071,774
Other Assets			
Equipment notes and contracts receivable for equipment rental (most of which have title retained as collateral), less unearned income (1969—$925,779 and 1968 restated—$642,014)	**3,539,098**	**2,429,950**	2,429,950
Less amount due within one year included under current assets	**1,585,758**	**1,250,276**	1,250,276
	1,953,340	**1,179,674**	1,179,674
Sundry other assets	**2,019,348**	**857,677**	585,060
	3,972,688	**2,037,351**	1,764,734
Property and Equipment—on the basis of cost, less allowances for depreciation and amortization—Notes B and D	**40,879,189**	**21,901,179**	18,346,272
Intangible Assets			
Franchises—at cost, less amortization (1969—$1,040,932 and 1968 restated —$852,322)—Note B	**642,312**	**671,721**	671,721
Other intangible assets, less amortization—Note B	**668,089**	**656,744**	612,778
Cost in excess of net assets of consolidated subsidiaries at dates of acquisition—Note A	**8,843,228**	**4,849,593**	4,849,593
	10,153,629	**6,178,058**	6,134,092
	$90,668,605	**$53,824,026**	$45,316,872

See notes to consolidated financial statements.

	Sept. 30, 1969	September 30, 1968 Restated Note A	September 30, 1968 As Previously Reported
LIABILITIES AND SHAREOWNERS' EQUITY			
Current Liabilities			
Notes payable—banks	$ 556,635	$ 916,690	$ 250,154
Trade accounts payable	10,853,104	5,948,359	4,938,014
Deposits on franchise contracts	2,115,237	1,374,700	1,046,200
Accrued taxes and interest	1,244,273	1,117,353	987,026
Accrued compensation and related items	1,320,709	952,836	681,445
Federal and state income taxes	8,817,891	5,214,056	3,965,909
Dividends payable	323,427	185,699	110,699
Portion of long-term liabilities due within one year	2,170,745	2,352,930	1,815,093
TOTAL CURRENT LIABILITIES	27,402,021	18,062,623	13,794,540
Long-Term Liabilities—Note C	18,067,095	3,969,693	2,823,020
Minority Interest in Consolidated Subsidiary—Note A	2,545,177	1,764,454	—
Shareowners' Equity—Notes A and F			
Preferred Stock:			
Unissued series—$100 par value: Authorized 500,000 shares; none issued	—	—	—
Series A—2% cumulative and convertible, par value $100: Authorized, issued, and outstanding—25,000 shares	—	—	2,500,000
Series B—2% cumulative and convertible, par value $100: Authorized, issued, and outstanding—4,000 shares	—	—	400,000
Common Stock:			
$1 par value: Authorized—30,000,000 shares Issued—9,800,039 shares in 1969; 9,667,340 shares in 1968 (including 189,308 shares in 1969 and 206,844 shares in 1968 in treasury)	9,800,039	9,667,340	—
No par value: Authorized—10,000,000 shares; issued—9,224,672 shares (including 199,700 shares in treasury)	—	—	2,767,402
Additional paid-in capital	12,251,504	10,915,657	12,663,383
Retained earnings	20,971,660	9,845,258	10,758,155
	43,023,203	30,428,255	29,088,940
Less cost of Common Stock in treasury	368,891	400,999	389,628
	42,654,312	30,027,256	28,699,312
COMMITMENTS AND CONTINGENT LIABILITIES—Note D			
	$90,668,605	$53,824,026	$45,316,872

See notes to consolidated financial statements.

Statement of Consolidated Additional Paid-In Capital and Retained Earnings

Kentucky Fried Chicken Corporation (Delaware) and Consolidated Subsidiaries	**Year ended Sept. 30, 1969**	**Year ended September 30, 1968** Restated Note A	As Previously Reported
Additional Paid-In Capital			
Balance at beginning of year	**$10,915,657**	**$ 147,306**	$ 158,082
Additions (deductions):			
Option price in excess of par value of Common Stock to employees, franchisees, and directors	**1,152,262**	**487,192**	487,192
Difference between capital of pooled companies acquired and par value of Common Stock issued in pooling of interests and related expenses and adjustments	**80,679**	**(754,584)**	158,436
Proceeds in excess of stated value of 400,000 shares of Common Stock of the Kentucky corporation sold to public prior to Exchange Offer	—	**11,940,000**	11,940,000
Other credits to additional paid-in capital	**7,928**	**14,573**	14,573
Contribution to capital by former owner of pooled company	**85,664**	—	—
Proceeds over cost of Common Stock of the Kentucky corporation acquired and sold by wholly-owned subsidiary of the Parent corporation	**53,862**	—	—
Amount transferred to Common Stock in connection with stock splits	**(1,015)**	**(94,900)**	(94,900)
Amounts applicable to minority interest in above transactions	**(43,533)**	**(823,930)**	—
BALANCE AT END OF YEAR	**$12,251,504**	**$10,915,657**	$12,663,383
Retained Earnings			
Balance at beginning of year	**$ 9,845,258**	**$ 4,178,825**	$ 4,178,825
Adjustment to conform fiscal periods of companies pooled during 1968	**17,001**	—	—
Reclassification of minority interest in Kentucky corporation	**(1,159)**	**(285,969)**	—
Retained earnings (deficit) at beginning of year of companies pooled during 1969	—	**(1,159,855)**	—
	9,861,100	**2,733,001**	4,178,825
Net income for the year	**12,083,245**	**7,722,286**	7,134,296
	21,944,345	**10,455,287**	11,313,121
Deduct:			
Cash dividends declared—$0.05	**450,222**	—	—
Cash dividends paid by Kentucky corporation prior to exchange: On Preferred Stock	—	**58,000**	58,000
On Common Stock	**458,741**	**428,786**	428,786
Dividends and other adjustments of pooled companies prior to merger	**93,943**	**157,121**	68,180
Amounts applicable to minority interest in above transactions	**(30,221)**	**(33,878)**	—
	972,685	**610,029**	554,966
BALANCE AT END OF YEAR	**$20,971,660**	**$ 9,845,258**	$10,758,155

See notes to consolidated financial statements.

Statement of Consolidated Source and Application of Funds

Kentucky Fried Chicken Corporation (Delaware)
and Consolidated Subsidiaries
Year ended September 30, 1969

Source of Funds

Net income (including minority interest of $796,291)	$12,879,536
Depreciation and amortization	3,133,860
FROM OPERATIONS	16,013,396
Proceeds from long-term loans from banks	13,601,584
Cash proceeds from exercising of stock options by employees and franchisees	715,344
Other	355,976
	30,686,300

Application of Funds

Property and equipment — net	21,833,485
Cash dividends	979,349
Cost of subsidiaries purchased in excess of net assets acquired, less long-term debt incurred	3,493,635
Increase in other assets	1,482,920
Franchises and other intangible assets	280,648
	28,070,037
Increase in working capital	2,616,263
Working capital at beginning of year	5,644,815
WORKING CAPITAL AT END OF YEAR	$ 8,261,078

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Kentucky Fried Chicken Corporation (Delaware) and Subsidiaries

Note A—Delaware Corporation, Principles of Consolidation, and Acquisitions

Kentucky Fried Chicken Corporation (a Delaware corporation) was incorporated on March 27, 1969 by the management of Kentucky Fried Chicken Corporation (a Kentucky corporation) solely for the purpose of becoming the parent of the Kentucky corporation through a voluntary, tax-free exchange of shares pursuant to an exchange offer. The Exchange Offer was made on May 5, 1969 and has been extended to December 31, 1969. As of September 30, 1969, approximately 93% of KFC (Kentucky) shares had been exchanged (approximately 96% at December 1, 1969). The exchange has been accounted for as a merger and reorganization in the accompanying financial statements and, accordingly, the minority interest in KFC (Kentucky) at September 30, 1969, has been segregated herein.

The consolidated financial statements include the accounts of the Corporation and its domestic and foreign subsidiaries, all of which are wholly-owned except the Kentucky corporation (whose subsidiaries are wholly-owned by it.) Intercompany accounts, transactions, and profits have been eliminated upon consolidation.

During the year ended September 30, 1969, KFC acquired 14 groups of companies which were accounted for as poolings of interests and 4 groups of companies which represented purchase transactions. The purchase transactions were acquired for cash and notes, aggregating $5,339,000. In connection with the pooled acquisitions, 654,348 shares of Common Stock were issued, including 184,710 shares applicable to businesses acquired between October 1, 1969 and December 11, 1969. Under the terms of agreements covering certain acquisitions, additional shares could be issued in three instances contingent upon change in market price of the Common Stock at dates subsequent to September 30, 1969 and, in another instance, up to 144,500 shares could be issued contingent upon future earnings of the acquired business. (Any dilutive effect upon net income per share arising from potential issuance of contingent shares has been provided for as described in Note G.) The consolidated financial statements for the year ended September 30, 1968 have been restated to give effect to the accounts and operations of the pooled companies. Operations of purchased companies have been included since dates of acquisitions.

Amounts included in the statement of consolidated operations for companies acquired subsequent to September 30, 1969 and accounted for as poolings of interests were as follows: net sales of $16,956,147 for 1969 and $17,313,794 for 1968 restated; and net income of $937,500 for 1969 and $810,359 for 1968 restated.

The excess of cost of investment in subsidiaries acquired since September 30, 1966, over the net assets of such subsidiaries at date of acquisition aggregated $8,843,228 at September 30, 1969, which amount is not being amortized since it is believed to be of continuing value.

Note B—Property and Equipment and Depreciation

Details of the Corporation's property and equipment are as follows:

	Sept. 30, 1969	September 30, 1968 Restated Note A	September 30, 1968 As Previously Reported
Buildings and improvements	$ 7,840,004	$ 4,505,299	$ 3,491,568
Transportation equipment	2,452,604	1,780,227	1,217,101
Office furniture and equipment	580,095	256,932	251,039
Other equipment	17,779,710	11,255,988	8,902,294
Leasehold improvements, including retail outlets	8,861,228	4,095,425	3,467,836
	37,513,641	21,893,871	17,329,838
Less allowances for depreciation and amortization	7,374,353	4,501,012	3,257,239
	30,139,288	17,392,859	14,072,599
Land	8,617,746	3,637,860	3,407,749
Construction in progress (estimated cost to complete at Sept. 30, 1969—$9,100,000	2,122,155	870,460	865,924
TOTAL PROPERTY AND EQUIPMENT	$40,879,189	$21,901,179	$18,346,272

Note B (continued)

Provision for depreciation of property and equipment has been made on a basis considered adequate to amortize the cost of depreciable assets over their estimated useful lives, generally by the declining balance method as to equipment acquired prior to October 1, 1967, and generally by the straight-line method for other property and equipment. The annual amounts of such allowances were computed on the basis of the following range of lives.

Buildings	10 to 40 years
Transportation equipment	3 to 8 years
Furniture and equipment	3 to 10 years
Other equipment	3 to 10 years
Leasehold improvements	4 to 30 years

Repairs, maintenance, and renewals are charged to income. Expenditures for improvements have been capitalized. The policy of the Corporation is to relieve property accounts and related allowances for properties retired or otherwise disposed of at amounts included therein for such properties and any gain or loss resulting therefrom has been included in the statement of operations.

The cost of franchises is being amortized over a period of from 97 to 210 months from date of acquisition.

Trademarks and organization expense are being amortized over a period of five years from the date such costs are incurred.

The amount by which the Kentucky corporation's investment in Commenco Corporation exceeded the net assets of that company at date of acquisition has been amortized over three years from the date of acquisition.

Note C—Long-Term Liabilities

The details of long-term liabilities are as follows:

	Sept. 30, 1969	September 30, 1968 Restated Note A	September 30, 1968 As Previously Reported
Notes payable to banks due on various dates including interest from 8% to 9% per annum	$14,747,113		
3% note issued to Col. Harland Sanders (Note retired October 15, 1968)		$ 500,000	$ 500,000
Mortgage and installment notes due in various installments on various dates	5,390,727	5,622,623	3,938,113
5% note payable to Jack C. Massey, due in annual $100,000 installments	100,000	200,000	200,000
	20,237,840	6,322,623	4,638,113
Less amounts due within one year included with current liabilities	2,170,745	2,352,930	1,815,093
TOTAL LONG-TERM LIABILITIES	$18,067,095	$ 3,969,693	$ 2,823,020

Note C (continued)

The mortgage and installment notes payable are collateralized by deeds of trust, equipment, buildings, and other assets with a book value of $3,606,935 at September 30, 1969.

Following is a summary of the aggregate maturities of the long-term liabilities:

Year ending:	
September 30, 1970	$ 2,170,745
September 30, 1971	16,362,908
September 30, 1972	611,896
September 30, 1973	237,568
September 30, 1974	157,018
Maturing beyond five years	697,705

Note D—Commitments For Construction, Leases, and Financing

The estimated cost to complete construction in progress at September 30, 1969, will amount to $9,100,000, including $4,200,000 for completion of new corporate office and a 200 room motel.

At September 30, 1969, commitments had been received from an insurance company to finance the new corporate office buildings and motel under a sale and leaseback of certain real estate and mortgaging the buildings and the motel furnishings and fixtures. Under the terms of the lease commitment, the Corporation will receive $700,000 for the real estate and will lease the property back for a period of 30 years at an annual rental of $73,220, with a 69-year renewal option at 8% annually. Additional rental based on gross income of the motel and from other sub-leases is also included. The loan commitments provide for mortgage loans of $2,120,000 on the office buildings and $2,000,000 on the motel, payable in aggregate monthly installments of $34,237 for 26 years, including interest at 9%, and prepayment privileges after 15 years at a 5% charge.

The Corporation and its subsidiaries were lessees at September 30, 1969, under 454 leases having terms expiring from 1969 to 1999. The leases call for minimum annual rentals, exclusive of real estate taxes, maintenance and insurance payments required by some of the leases, as follows:

1970 - 1974	$16,200,045
1975 - 1979	6,486,789
1980 - 1984	8,738,965
1985 - 1989	3,081,029
1990 and subsequent	489,549

Note E—Profit Sharing Plan

The Kentucky corporation has a contributory profit-sharing plan which provides retirement benefits for eligible employees who elect to participate. The subsidiary's contribution may not exceed 10% of compensation (excluding bonuses) of participating employees. The amount charged against income was $82,780 and $51,188 for the years ended September 30, 1969, and September 30, 1968, respectively.

Two other subsidiaries have entered into agreements or pension plans to pay retirement benefits to certain employees upon the attainment of age 65. Under one agreement, these benefits are funded by insurance policies covering the lives of the various participants. At September 30, 1969, policies in effect on the lives of the participants incurred gross annual premiums of $7,840. Under another pension plan,

Note E (continued)

the subsidiary's policy is to fund pension cost accrued under the individual level cost (premium) method; however, the subsidiary intends to discontinue this pension plan. Inasmuch as the assets of the fund exceed the vested benefits of the participants, no provision was made for pension costs under this plan during 1969.

Note F—Capital Stock and Stock Options

Changes in Authorized Capital Structure:

Capitalization of the Parent (Delaware) Corporation consists of 30,000,000 shares of $1.00 par value Common Stock and 500,000 shares of $100.00 par value Preferred Stock. No Preferred Stock has been issued by the Parent corporation. The following summary sets forth the Common Stock transactions from October 1, 1967 to September 30, 1969, giving retroactive effect to the merger and reorganization of the Kentucky corporation (arising from the Exchange Offer for the Kentucky corporation's capital stock) with the newly-formed Delaware corporation:

	YEAR ENDED	
	Sept. 30, 1969	Sept. 30, 1968
Shares of Common Stock ($1.00 par value) outstanding:		
Balance at beginning of year:		
As previously reported	9,224,672	8,599,992
Issued for acquisitions:		
1968	—	4,696
1969	654,348	654,348
Exchanged for Preferred Stock	424,030	424,030
	10,303,050	9,683,066
Less minority interest	635,710	593,446
As restated	9,667,340	9,089,620
Options exercised:		
Franchisees	90,600	188,184
Employees	49,300	31,800
Preferred Stock converted	1,489	—
Common Stock sold	—	400,000
Shares applicable to minority interest in above items	(8,690)	(42,264)
Balance at end of year	9,800,039	9,667,340

The series A and B Preferred Stock of the Kentucky corporation outstanding at September 30, 1968, (except for 1489 shares converted prior to the Exchange Offer) was exchanged for Common Stock of the Corporation during the year ended September 30, 1969 and such securities were held as an investment by the Parent Corporation at that date.

Qualified Stock Option Plans:

On April 9, 1969, the Board of Directors adopted, and the then sole stockholder (the Kentucky corporation) approved a Qualified Stock Option Plan reserving 150,000 shares of $1.00 par value Common Stock for issuance under options granted to full-time key employees and executive personnel, including directors, of the Corporation and its subsidiaries. No participant may own more than 5% of the Corporation's outstanding stock or shall be granted options for more than 15,000 shares under the Plan. Each optionee must agree to remain with the Corporation for not less than two years from date of option granted and must pay in full for shares as to which options

Note F (continued)

are exercised. Under the terms of the Plan, the option price shall be 100% of the market value on date granted and optioned stock may be purchased one-third each year (cumulatively) after one year from date of option but not after five years from such date or after termination of employment. No option under the Plan may be exercised while the employee has outstanding an option granted on a prior date at a higher purchase price than such option. Options may be granted for five years from the date of adoption of the Plan.

The Board of Directors has also authorized the substitution of options for the purchase of its shares to holders of options under the 1966 and 1968 Plans of the Kentucky corporation on the same terms and conditions as such outstanding options. The Corporation's Plan incorporated the same provisions as the Kentucky corporation's 1968 Plan, except that the maximum shares which may be granted to any one employee under the Kentucky corporation's 1968 Plan is limited to 7,500 shares. Any options substituted for the 1968 Plan options are to be considered options granted under the Corporation's Plan for the purpose of determining the number of shares which may be issued under said Plan.

At October 1, 1968, there were options outstanding to purchase 79,700 shares of Common Stock (all under the 1966 Plan). During the year, options were granted under the Corporation's Plan for 28,800 shares at $38.50 to $45.50 per share (aggregate option price-$1,203,238) and under the 1968 Plan for 60,475 shares at $39.00 to $53.00 per share (aggregate option price-$2,723,467). Options exercised during the year consisted of 49,300 shares under the 1966 Plan at prices from $5.00 to $30.63 per share with an aggregate option price of $547,663; and options were terminated for 1,000 shares under the 1966 Plan and for 9,550 shares under the 1968 Plan. There were 268,200 shares reserved at the beginning of the year for future options and 70,275 shares reserved at the end of the year for future options.

At September 30, 1969, options were outstanding for 28,800 shares at $38.50 to $45.50 per share (aggregate option price-$1,203,238) and for 50,925 shares at $39.00 to $53.00 per share (aggregate option price-$2,291,875).

Franchisee Stock Options:

On March 17, 1966, the Kentucky corporation had granted options to franchisees to purchase 735,672 shares of such corporation's Common Stock at $1.85 a share (after giving effect to all stock splits). The options were not transferable. They could be exercised at any time after June 24, 1966 and expired on March 31, 1969. The option price was equal to the net price at which a public offering was made at the time that the options were granted. At the beginning of the current fiscal year, options were outstanding for 92,904 shares, of which options for 90,600 shares were exercised during the year (aggregate option price-$167,681; approximate market price at date exercised-$3,793,920) and options for 2,304 shares terminated.

Other Stock Options:

On June 9, 1969, the Executive Committee of the Board adopted a Restricted Stock Purchase Plan for key executives of the Corporation. Under the terms of the Plan, shares may be sold to eligible executives at a purchase price equal to 66⅔% of the fair market value on the date the offer is approved. The full purchase price shall be paid within 60 days of the offer. The Corporation may loan an executive up to 100% of the purchase price subject to certain terms and conditions, including receipt of a promissory note with full personal liability of executive, interest at not less than 4% per annum, secured by pledge of shares purchased, etc. There are also certain restrictions on sale or other disposition of the shares purchased under the Plan. No shares have been offered under the Plan.

The Corporation assumed (subject to Shareowners' approval) the obligations of the Kentucky corporation under options granted on March 11, 1969, to each of three directors to purchase 5,000 shares of Common Stock at $40.00 per share, representing the market price on that date. The amended options were exercised and 15,000 shares were issued therefor from treasury stock in July 1969. The Corporation received non-recourse, non-interest bearing promissory notes (aggregating $600,000) secured by a pledge of the stock in payment for the shares purchased. The amount of the notes in excess of the cost ($29,265) of the treasury stock sold, aggregating $570,735, has been credited to additional paid-in capital.

Note G—Net Income Per Share

Net income per share has been based upon average number of shares of Common Stock outstanding for the year and has been increased on the assumed basis: (1) that all stock options would be exercised and that proceeds from the assumed sale of such stock would be applied towards the purchase of treasury stock decreasing the optioned shares assumed exercised herein; (2) that all outstanding shares of the Kentucky corporation stock would be exchanged for Common Stock of the Parent Corporation; and (3) that certain additional shares would be issued (based on current conditions) under contingent payout provisions of agreements with pooled companies. Accordingly, net income used in the computation includes net income of the Kentucky corporation attributable to minority interest included under (2) herein.

Note H—Federal Income Taxes and Investment Credit

The federal income tax returns filed by the Kentucky corporation and certain of its subsidiaries through the year ended September 30, 1968, have been or are in the process of being examined by the Internal Revenue Service, and management believes that adequate provision for taxes which may arise from such examinations has been made in the financial statements.

Under the terms of merger or acquisition agreements, the Corporation has recourse against shareholders of the acquired corporations for undisclosed liabilities including income taxes, limited in some cases to the excess of a specified amount.

The investment credit for the year ended September 30, 1969 was not significant. It is the policy of the Corporation to include the investment credit in income for the year in which it arises.

Note I—Subsequent Events

The management of the Corporation has had numerous discussions with various companies in the fast-food, motel, and related industries as to possible acquistions and mergers. As of December 17, 1969, the Corporation's Board of Directors had not approved any of these proposed transactions. Some of the proposed acquisitions would result in the Corporation issuing shares of its Common Stock. (See Note A for additional shares of Common Stock contingently issuable in certain completed acquisitions.)

Accountants' Report

Board of Directors and Shareowners
Kentucky Fried Chicken Corporation
Louisville, Kentucky

We have examined the consolidated balance sheet of Kentucky Fried Chicken Corporation (a Delaware corporation) and consolidated subsidiaries as of September 30, 1969, and the related consolidated statements of operations, additional paid-in capital and retained earnings, and source and application of funds for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We previously made an examination of the consolidated financial statements for the preceding year.

In our opinion, the accompanying balance sheet and statements of operations, additional paid-in capital and retained earnings, and source and application of funds present fairly the consolidated financial position of Kentucky Fried Chicken Corporation (a Delaware corporation) and consolidated subsidiaries at September 30, 1969, and the consolidated results of their operations and changes in shareowners' equity for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Louisville, Kentucky
December 17, 1969

Ernst & Ernst

Directors

Jack C. Massey
Board Chairman

John Y. Brown, Jr.
President

Harland Adams
President, KFC Inc. of Florida
Miami, Florida

George W. Baker
Group Vice President

Sam Fleming
President, Third National Bank
Nashville, Tennessee

Donald D. Greer
Group Vice President

J. David Grissom
Partner,
Greenebaum Grissom Doll Matthews & Boone
Louisville, Kentucky

Ervin E. Hanks
President, Speck Enterprises, Inc.
Portland, Oregon

Leon W. Harman
President, Quality Distributors, Inc.
Los Altos, California

John M. Mihalic, Jr.
Group Vice President,
Avco Corporation
Nashville, Tennessee

Haddon Salt, esq.
Goodwill Ambassador

Colonel Harland Sanders
Goodwill Ambassador

Elvis Stahr
President, National Audubon Society
New York City

William T. Young
Board Chairman,
Royal Crown Cola Company
Columbus, Georgia

Officers

Jack C. Massey
Board Chairman

John Y. Brown, Jr.
President

Donald D. Greer
Group Vice President

George W. Baker
Group Vice President

Donald V. Maxfield
Financial Vice President

Robert S. Barlow
Vice President for Franchisee Relations

Peter B. Curlin
Vice President for Financial Planning

Norman N. Habermann
Vice President for Corporate Planning

Fred Martin III
Vice President
(also President, Kentucky Roast Beef Division)

Richard B. Thomas
Vice President
(also President, Salt's Fish & Chips Division)

Jackson W. White
Vice President for Franchising

Charles G. Hitner
Treasurer

Edward E. Ellis
Corporate Counsel and Secretary

Transfer Agents

Third National Bank
Nashville, Tennessee

First National City Bank
New York City

Registrars

First American National Bank
Nashville, Tennessee

Bankers Trust Company
New York City

Auditors

Ernst & Ernst

brought 91 new outlets within the Kentucky Fried Chicken franchising family, and by the close of fiscal 1969 this total had grown to 125. During 1970 we hope to increase the number of fish and chips shoppes in operation to 325. A single joint venture program already underway will establish more than 200 fish and chips outlets within the next three years. Current plans call for 100 company-owned and 100 franchised shoppes to be opened in 1970.

Fred Martin
President, Kentucky Roast Beef
Corporate Vice President

The expansion of company-owned stores during fiscal 1969 contributed heavily to earnings. Revenues from company-owned operations, which last year exceeded revenues from franchised stores for the first time, provide substantially more profit than franchised operations. At the close of fiscal 1969, Kentucky Fried Chicken owned 504 chicken, five roast beef and three fish and chips stores, in addition to nine stores offering both roast beef and chicken — nearly double the number of company-owned units at the end of 1968. Kentucky Fried Chicken will continue to increase the number of company-owned stores, both through the acquisition of franchised operations and by opening new outlets within presently-owned territories. It is the Company's objective to own 1,000 stores by 1972.

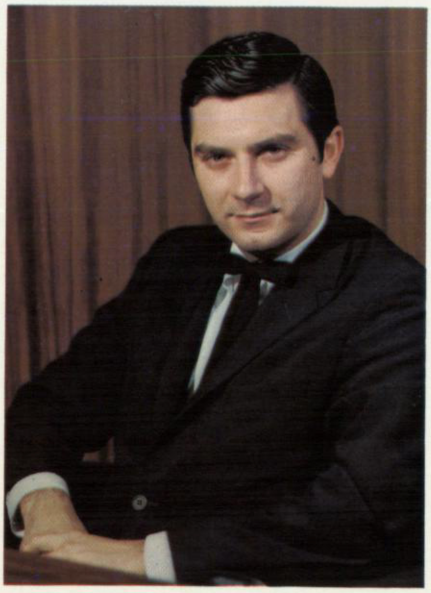
More significant than the opening of 35 new Kentucky Fried Chicken stores in foreign countries during fiscal 1969 is the fact that several substantial agreements were reached during the year which will accelerate the Company's international expansion during 1970. A joint venture agreement with Mitsubishi Shoji Kaisha, Ltd., one of the world's largest corporate complexes and Japan's largest poultry producer, provides excellent growth potential for Kentucky Fried Chicken stores in Japan. In Mexico, a dozen profitably operating

units have been reacquired by the Company in a joint venture agreement. Another joint venture development program agreed upon in 1969 calls for more than 100 Kentucky Fried Chicken stores in Great Britain before 1974. In Australia, where 28 stores are now open, we have a commitment for franchised and company-owned development.

Kentucky Fried Chicken is dedicated to becoming the leader in international fast food service operations during the decade ahead, and intends to capitalize on its financial strength, advanced concepts and management skills to further enhance the leadership role that the Company already has attained in the domestic fast food industry.

Loy Weston
Director KFC Japan

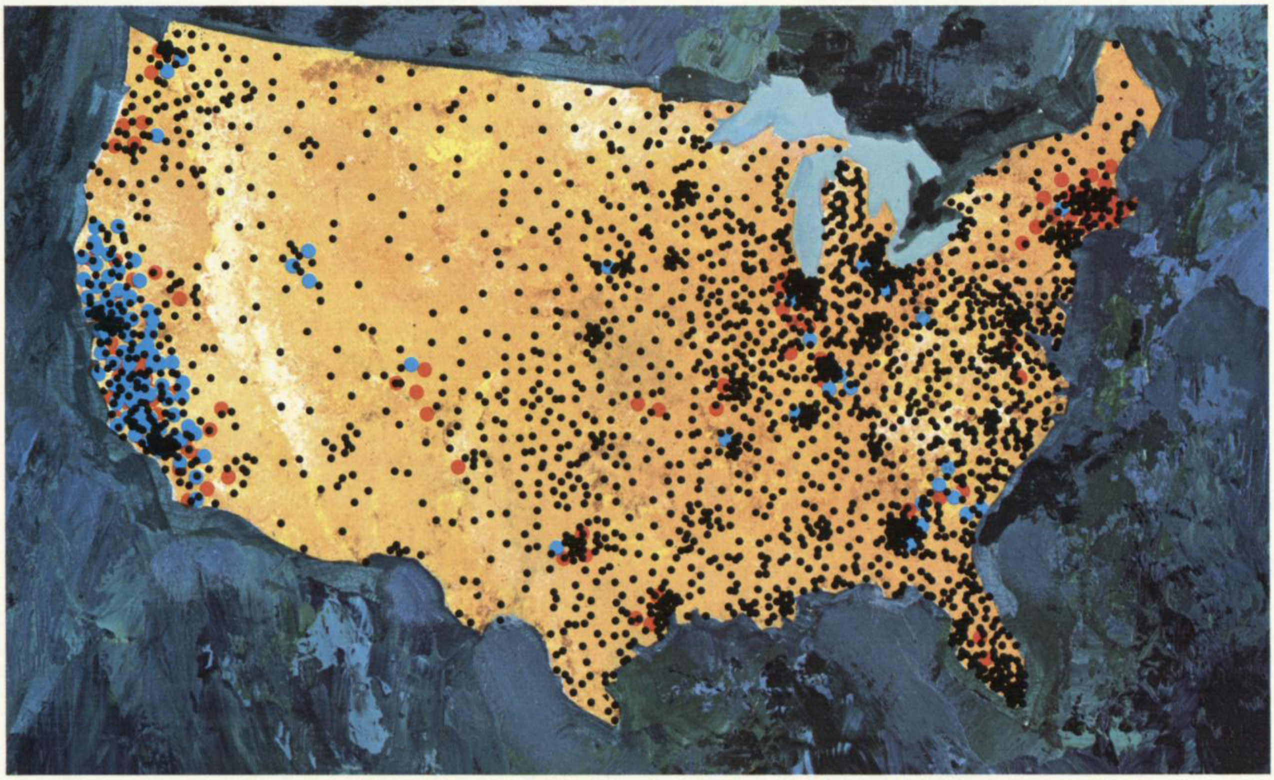
Donald Vannini
Director KFC Europe



Dennis Wachna
Director KFC Australia

Retail Locations

- • Kentucky Fried Chicken
- • Kentucky Roast Beef
- • H. Salt, esq., English Fish & Chips



A joint venture agreement with Mitsubishi is expected to make Japan a leading international market for Kentucky Fried Chicken. Loy Weston, pictured above with Mitsubishi executives Kichitaro Takano, left, and Tamotsu Takana, serves as executive director of Kentucky Fried Chicken-Japan, Ltd. A replica of Colonel Harland Sanders has been placed in an exhibit of Mitsubishi products and business interests.

Our New Kentucky Home

Colonel Harland Sanders could not have realized in 1930, when he began serving home-cooked meals in his tiny Kentucky service station, that an expansive three-story International Headquarters would one day replace his eight-seat dinner table as the focal point for marketing his culinary talents.

The Colonel, his secret chicken-frying process and recipe, his colorful and distinctive appearance have created a living legend that serves as the cornerstone for Kentucky Fried Chicken Corporation's International Headquarters, which is scheduled for completion in May, 1970, in Louisville. The new corporate complex, which will house more than 300 corporate staff members, is designed in the elegant Southern Colonial style which typifies the birthplace of the product upon which the Company has established a leadership position in the food industry.

The rolling, spacious site adjacent to Interstate 264 also will include the Corporation's first motel, a Colonel Sanders Inn, that is far removed from the one-pump gas station in Corbin, Kentucky, which blossomed into the 142-seat restaurant and 35-room motel which the Colonel developed before starting his now-famous franchising career.

That first facility at the junction of U.S. Highways 25, 25E and 25W grew because of the popularity Colonel Sanders' food gained with travelers, but it also withered because of the threat that highway relocation would remove those travelers.

In 1956, when the Colonel reached his 65th birthday and received his first Social Security check, he was forced to close his restaurant because it was isolated from a new interstate highway through the Corbin area. But he took that $105 check for his first month of retirement and set out to merchandise an idea that has postponed that retirement by nearly 15 years.

Traveling in true Kentucky Colonel style, with white suit, string tie, silver-handled cane and his now famous goatee and mustache, he set out to merchandise his idea to restaurant owners across the country, an action that formed the foundation for the organization that is today the world's leading company in the field of commercially-prepared foods.

The Colonel, who celebrated his 79th birthday on September 9, 1969, is now one of the best-recognized men in the United States. He continues to participate in Kentucky Fried Chicken commercials and promotional activities, contributing a large portion of his income as a corporate official toward the support of more than 250 foster children around the world and a lengthy list of charitable organizations.

The Kentucky Fried Chicken Corporation International Headquarters now taking shape is a worthy tribute to the sharp-witted, far-sighted self-styled gourmet who once vowed — "A man will rust out before he will wear out"— and then proved it.

Management

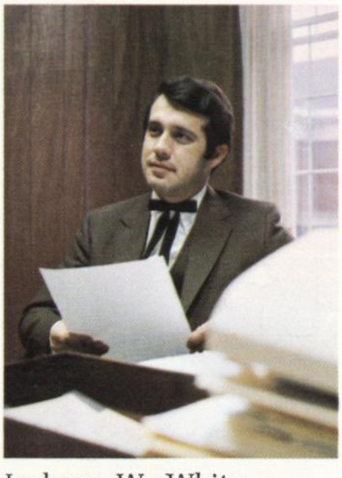
Donald D. Greer
Group Vice President, Director

To properly prepare for growth opportunities, Kentucky Fried Chicken has invested heavily in recruiting and developing a management team of exceptional competence and depth. Sound management is essential, not only for continued operating success, but in order to capitalize on future opportunities. Today, we believe that we have the finest management team in our industry.

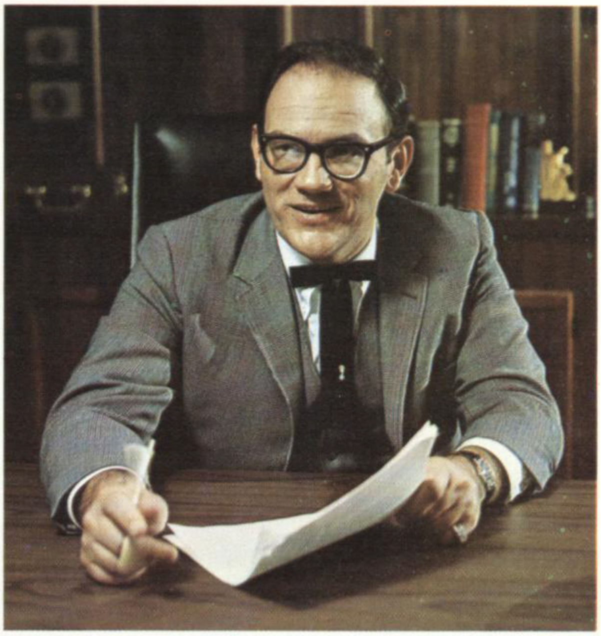
Our professional staff was more than doubled during 1969 with the addition of well-qualified talent in accounting, law, corporate planning, finance, engineering and marketing to help guide your Company during its continued expansion. Many former franchisees who were outstanding successes in their own right have developed as operational executives, giving us the most experienced operating management team in the fast food field.

Pictured on accompanying pages are members of the Board of Directors and Company executives.

Robert S. Barlow
V.P., Franchise Relations
Executive V.P., KFC Operating Co.



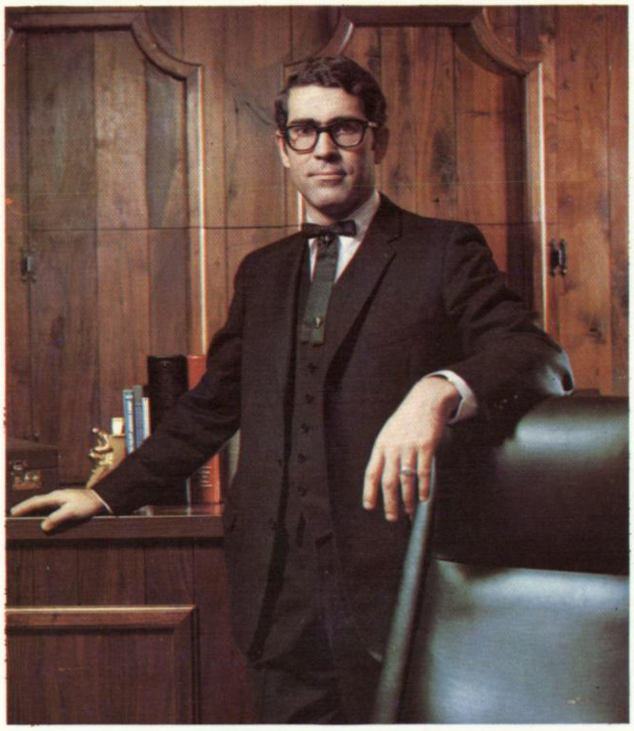
Jackson W. White
Vice President-Franchising



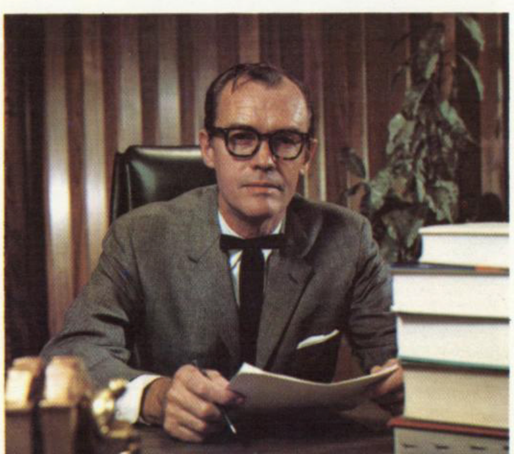
George W. Baker
Group Vice President and President, KFC Operating Company, Director

Officers

Edward E. Ellis
Corporate Secretary

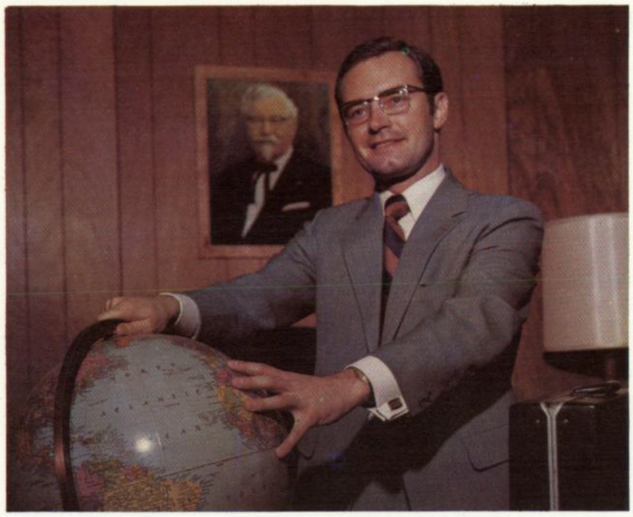


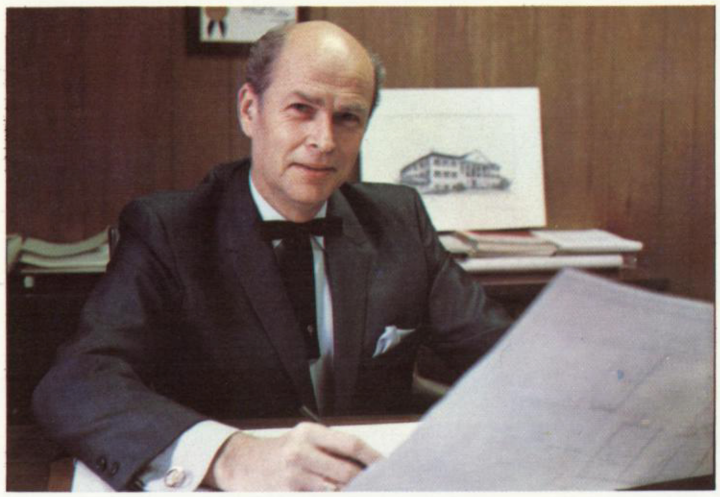
Ted P. Cullin
Director, Field Services



Donald V. Maxfield
Financial Vice President

Robert Lapointe
President, KFC International

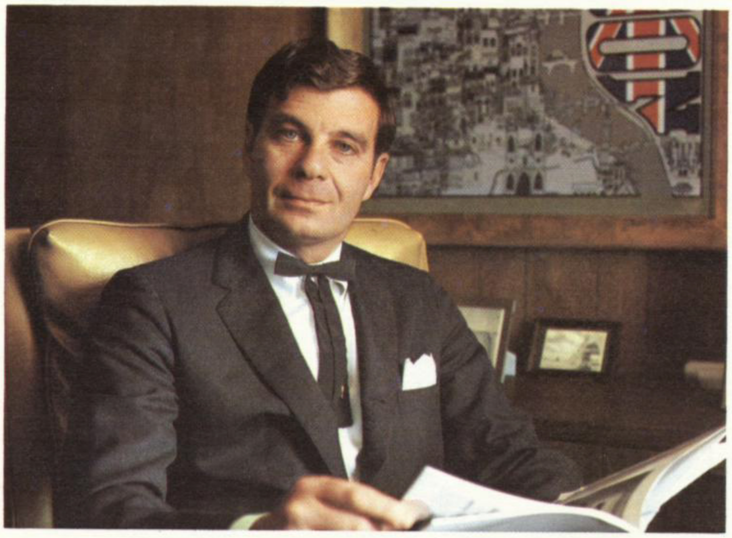




Carroll V. Willoughby *Director, Administration*

Charles Hitner
Treasurer

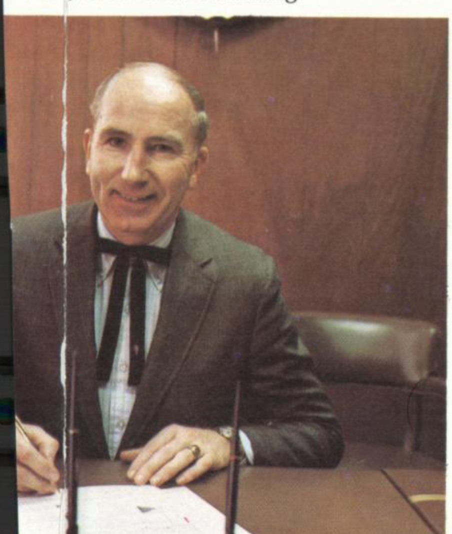
George Gray
President, KFC Manufacturing Corporation



Norman N. Habermann
V.P. Corp. Planning

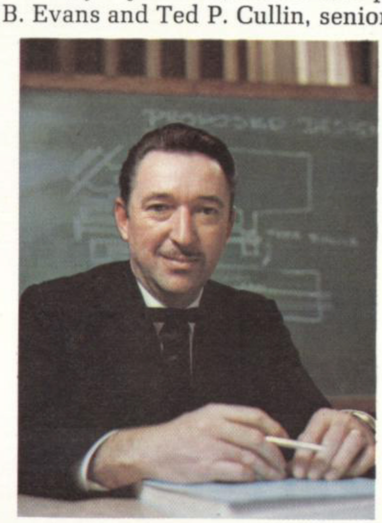
Peter B. Curlin
V.P., Financial Planning

The Executive Committee of Kentucky Fried Chicken Operating Company directs the operations of all company-owned stores. Pictured (left to right): Robert S. Barlow, executive vice president; Jerry Tinkle, senior vice president, George W. Baker, president; William B. Evans and Ted P. Cullin, senior vice presidents.



Richard H. McFarland
Director of Purchasing

William L. Sheets
President, Commenco Corporation

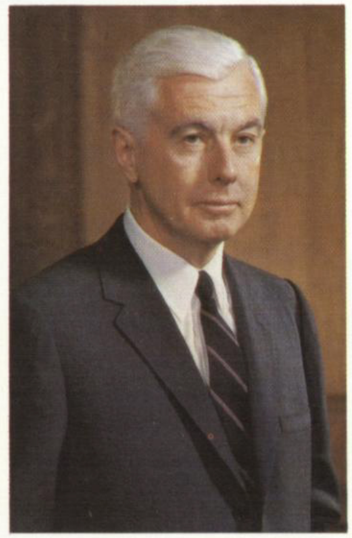


William Bridges
Director of Engineering

Directors

John Mihalic, Jr.
Group Vice President
AVCO
Nashville, Tennessee

Leon W. Harman
President,
Quality Distributors
Los Altos, California

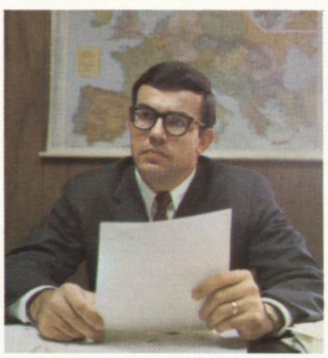


William T. Young
Board Chairman
Royal Crown Cola Company
Columbus, Georgia

Sam Fleming
President
Third National Bank
Nashville, Tennessee

Elvis Stahr
President, Audubon Society

Ervin E. Hanks
President, Speck Enterprises, Inc.
Portland, Oregon



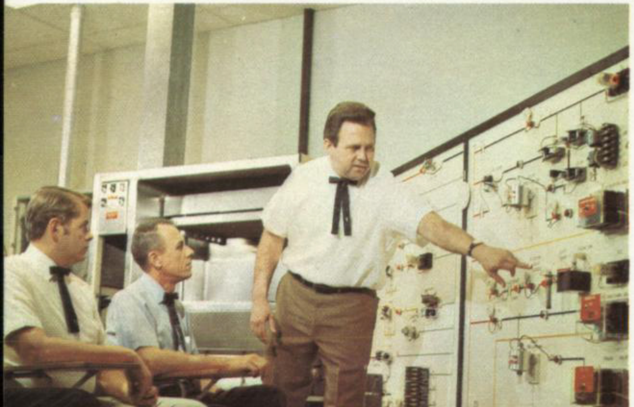
J. David Grissom
Partner
Greenebaum, Grissom, Doll,
Matthews & Boone
Louisville, Kentucky

Harland Adams
President, KFC, Inc. of
Florida
Miami, Florida

Other corporate directors, including President John Y. Brown, Jr., Jack C. Massey, Board Chairman, Group Vice Presidents George W. Baker and Donald D. Greer, and Goodwill Ambassadors Colonel Harland Sanders and Haddon N. Salt, esq., are pictured elsewhere in this report.

Research and Development

Arthur F. Pelster
Director of Research and Development



An intensive instructional program is given to managers of all stores which install the Company's new automated cooker. Cooker operation is presented in simulated form to help students fully understand each step in its operation. The cooker is partially visible in the background of this photo.

Kentucky Fried Chicken has invested heavily in market research and in the research and development of new products and equipment designed to improve and standardize quality and add to our profitability. KFC's heavy investment in research over the past two years has made our company the leading innovator in the fast food field.

Through KFC Manufacturing Corporation, formed in 1969 and based in Nashville, Tennessee, the Company has developed and produced the first automatic cooker using our process for frying chicken. The cookers, primarily designed to produce a more completely uniform KFC product, also are engineered for ease of operation, lower equipment costs and labor savings.

To complement the automatic cooker, KFC Manufacturing Corporation is refining an automatic chicken breader. The breader is being used experimentally in selected Kentucky Fried Chicken stores.

In addition to the manufacturing facility, the Company has established a research and development group, responsible for pioneering new equipment, food and operational processes in all company food divisions.

Research and development activities will continue to convert theory into new equipment and new products to further facilitate the efficiency, quality control, and profit capabilities of our fast food outlets.

(Opposite page, above) Training Director Jim Yarbrough (yellow shirt) reviews assembly of kitchen equipment with a class of future Kentucky Fried Chicken store managers and franchisees at the Company's training school in Louisville.

(Opposite page, below) Kentucky Fried Chicken, through its corps of Field Service representatives, provides expert assistance to its franchisees across the country.


SOUTH BEND

Marketing and Advertising

The image of Colonel Harland Sanders — perhaps the best-known figure in America today — and of the quality products he symbolizes have been built through an aggressive program of advertising and promotion which reached more consumers in 1969 than ever before.

With the realization that the ability to convey and merchandise this image determines the sales success of our business, Kentucky Fried Chicken and its franchisees invested more than $24 million in national and local advertising in 1969, more than any other organization in the fast food field. These funds purchased newspaper and magazine advertisements, radio spots, television commercials, direct mail advertising, outdoor advertising posters, and materials displayed by Kentucky Fried Chicken stores.

A portion of this advertising budget was provided through the National Cooperative Advertising Program to which Kentucky Fried Chicken franchisees allocated in 1969 for the first time one per cent of their gross sales. The national advertising funds of more than $4 million were devoted almost entirely to purchasing prime time on national television.

One of the nation's largest advertising agencies, Leo Burnett Co., Inc., researched, created and produced a 1969 Kentucky Fried Chicken advertising campaign that has since been appraised as the most successful in terms of sales and consumer response in company history. More than 1,300 hours of consumer research from coast to coast were invested in determining our market criteria. This research provides the company with consumer data which will help determine future marketing strategy.

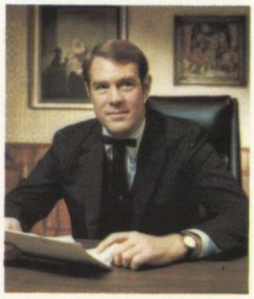
In addition to the Colonel's featured roles in television commercials, he appeared in numerous television cameo guest spots and participated in President Nixon's Inaugural Parade and the Orange Bowl Parade.

A. Carroll Jones
Director, Marketing and Advertising

Richard A. Niglio
Director, Marketing and Advertising, Company Operations

David S. Mathewson
Executive Secretary, National Cooperative Advertising

Renewed for 1970 are two of the most popular television commercials for Kentucky Fried Chicken during 1969. In both, a checker-playing scene in a country store and a fishing scene with a little boy, Colonel Sanders talks, in his inimitable folksy down-home style, about the product which he originated.



Patrick J. Morin
Admin. Director
Interstate Combo Program

Anthony M. Lavely
Marketing Manager
H. Salt, Esq.
English Fish and Chips

Today, Kentucky Fried Chicken Corporation has in Haddon Salt, the dynamic, personable and typically-British founder of H. Salt, esq., English Fish & Chips, the only other authentic living image in the fast food industry. Like The Colonel, Haddon Salt developed a product of superior quality and a unique system of preparation and service to the consumer. And like the Colonel, he serves as ambassador of goodwill for the Company through personal appearances and media advertising.

In 1970, Kentucky Fried Chicken Corporation will launch an extensive advertising campaign featuring Haddon Salt with backgrounds in his native England and in Iceland, where the product, Icelandic Cod, is processed.

The Company's overall 1970 advertising program will feature an increased budget and commercial schedule in comparison to the record 1969 campaign, as part of Kentucky Fried Chicken Corporation's emphasis on reaching the consumer through advertising as assurance of continued leadership in the fast food industry.

Segments of the 1970 H. Salt, esq., English Fish & Chips television commercials were taken in Iceland, habitat of Icelandic Cod, and in England, birthplace of the fish and chips concept. Haddon Salt and Captain Ingolfur Moller, quality control coordinator for all fish provided for the Company, appear in one commercial. In another, Salt visits the house where he was born in Stanfree, England.

COL: Now, there's hardly a person who doesn't know about Colonel Sanders' Kentucky Fried Chicken.

COL: And you've heard of Colonel Sanders' secret recipe? Well, that's no story.

COL: It's the reason no other chicken in the world'll come out like the Colonel's, you see.

COL: Say, I don't know about this fishin' expedition.

COL: Kinda looks to me like you're doing more biting than the fish.

SONG: Kentucky Fried Chicken, if you want Kentucky Fried Chicken, you have to visit me.

COL: Kentucky Fried Chicken...it means chicken fried just one way.

COL: I start out with fresh, young broilers—never frozen.

EARL: That why it's so good?

COL: Everybody knows how good my chicken is, but nobody knows how it's made.

COL: Looks like my chicken's improved your game, doesn't it.

SONG: Kentucky Fried Chicken, if you want Kentucky Fried Chicken, you have to visit me.

News Events of the Year

Kentucky Fried Chicken Corporation, a business in the news throughout 1969, also was prominently represented at some of the nation's greatest news-making events during the year. These events, which contributed significantly to the Company's public exposure, added impact to the familiar consumer advertising program which Kentucky Fried Chicken employs.

Pictured on this page are highlights from four of the numerous news and business events that placed Kentucky Fried Chicken in the public spotlight.

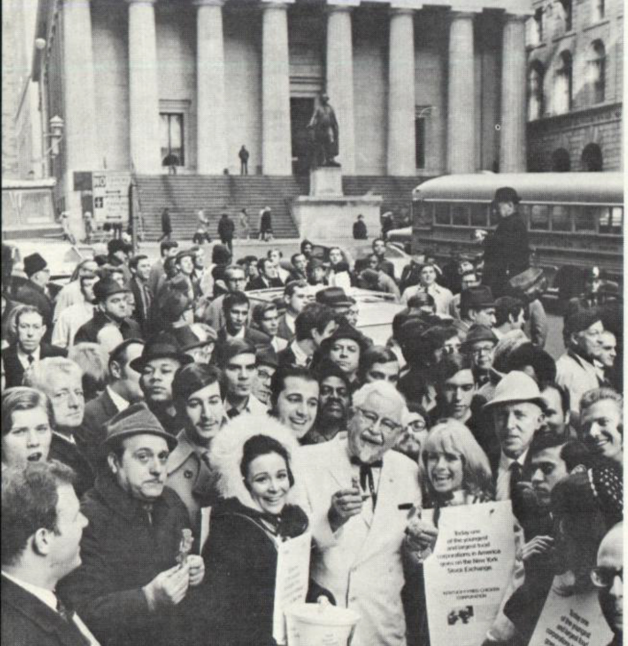
A

(A) The familiar image of Colonel Harland Sanders warmed the throngs that gathered to view President Richard Nixon's Inauguration Parade in Washington, D. C., in January. The Colonel was featured on the Kentucky float.

B

(B) President John Y. Brown, Jr., Colonel Harland Sanders and Haddon N. Salt, esq., participate as guests on the Institutional Investors Video Forum in New York City.

C



(C) Colonel Harland Sanders celebrates Kentucky Fried Chicken Corporation's appearance on the New York Stock Exchange by offering the Company's famous product to Wall Street passersby. The Colonel bought the first 100 shares when the Company's stock was admitted to trading on the exchange January 16, 1969.

D

(D) President John Y. Brown, Jr., Kentucky Governor Louie B. Nunn and California Governor and Mrs. Ronald Reagan admire a thoroughbred at a National Republican Governor's Conference event hosted by Kentucky Fried Chicken in Lexington, Kentucky.

Kentucky, world famous for its lush bluegrass, championship stock thoroughbred race horses and Southern colonels, is again the home stable of another product that has brought fame to the state of its origin, Kentucky Fried Chicken, with corporate headquarters in Louisville.